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# Office of the Legislative Auditor

State of Montana

Report to the Legislature

February 1994

# Financial-Compliance Audit

Fiscal Year Ended June 30, 1993

# Western Montana College of the University of Montana - Bond Audit

# 1966 Series and 1967 Series Revenue Bonds

**This report contains no recommendations. We issued an unqualified opinion on the financial schedules.**

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

# Office of the Legislative Auditor

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February 1994

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The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the audit of the financial schedules related to the Western Montana College of the University of Montana 1966 Series and 1967 Series Revenue Bonds. This report contains no recommendations. We performed this audit at the request of college officials to satisfy requirements of the bond indentures.

The Board of Regents (board) and Western Montana College (college) issued $1,676,000 of Housing and Dining System Revenue Bonds 1966 Series to build a three-story dormitory. The bonds are payable from the college's housing and dining system income, student union fees, and building fees.

The board issued $636,000 of Student Building Fee and Land Grant Income Revenue Bonds 1967 Series to construct a physical education classroom building and install necessary equipment. The bonds are payable from physical education building fees and land grant income and usage charges.

In November 1993, the University of Montana and Western Montana College jointly issued $48,050,000 in revenue bonds. Western Montana College will receive bond proceeds totaling $955,000. These funds, in addition to liquidated debt service reserves, will finance the defeasance of the 1966 and 1967 Revenue Bonds during fiscal year 1993-94 and will provide $500,000 for remodeling the student union building.

We thank the college officials for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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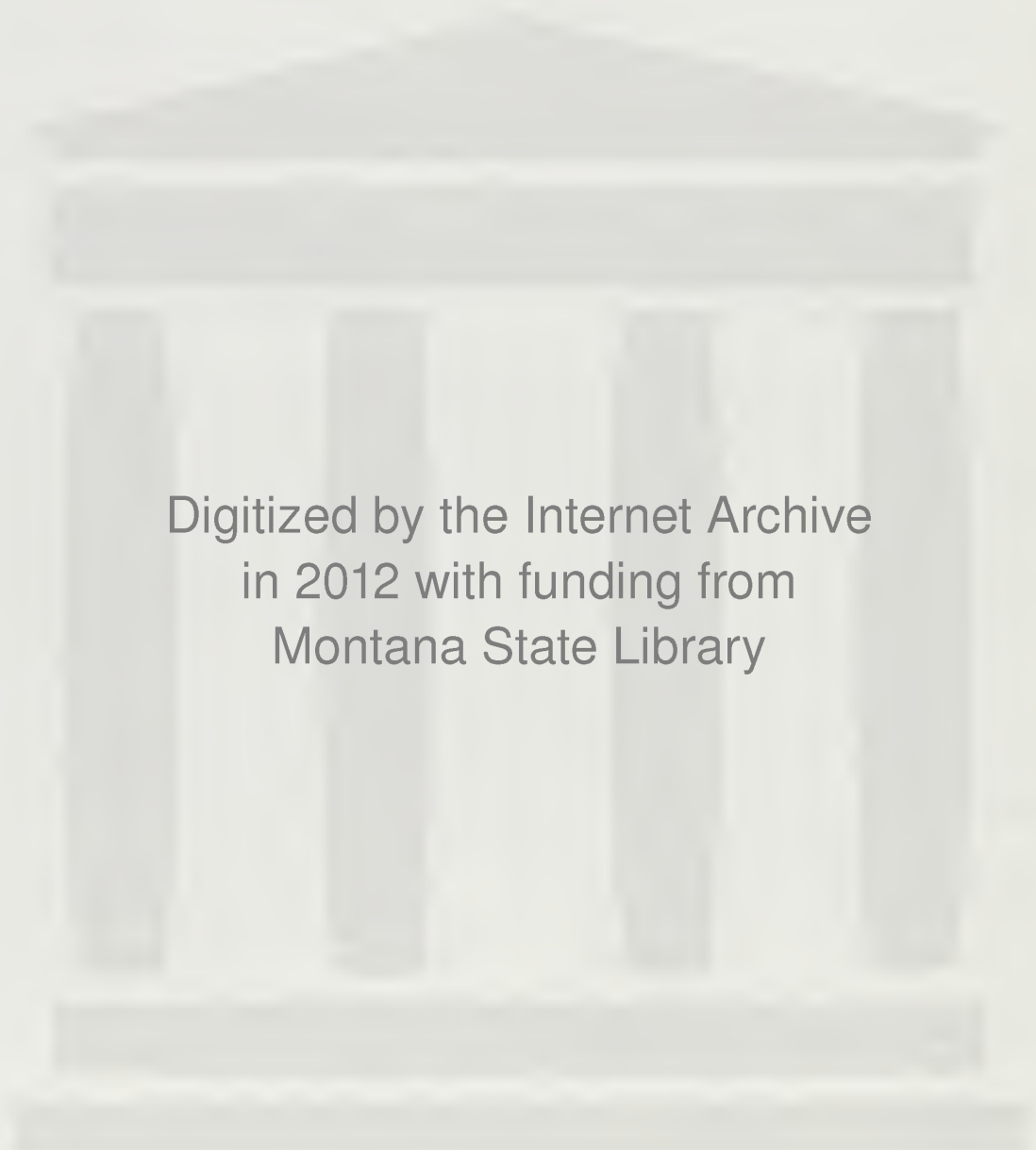
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# Office of the Legislative Auditor

**Financial-Compliance Audit**
**Fiscal Year Ended June 30, 1993**

# Western Montana College of the University of Montana - Bond Audit

# 1966 Series and 1967 Series Revenue Bonds

Members of the audit staff involved in this audit were Glenn Jorgenson, Patti J. Robertson and Jim Manning.

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## Appointed and Administrative Officials

### Board of Regents of Higher Education

| | | Term Expires |
|---|---|---|
| Marc Racicot, Governor* | | 1996 |
| Nancy Keenan, Superintendent of Public Instruction* | | 1996 |
| Jim Kaze, Chairman | Havre | 1999 |
| Cordell Johnson, Vice Chairman | Helena | 1996 |
| Patrick P. Davison | Billings | 2000 |
| Kermit R. Schwanke | Missoula | 1997 |
| Paul F. Boylan | Bozeman | 1998 |
| L. Colleen Conrad | Hardin | 2001 |
| Shane Coleman Student Representative | Bozeman | 1994 |

*Ex officio member

### Commissioner of Higher Education

Dr. Jeff Baker*
Commissioner of Higher Education

Rod Sundsted
Deputy Commissioner for Management and Fiscal Affairs

Laurie O. Neils
Director of Budget and Accounting

### Western Montana College of the University of Montana

| | |
|---|---|
| Dr. George M. Dennison | President of the University of Montana |
| Dr. Sheila M. Stearns | Chancellor of Western Montana College of the University of Montana |
| Glen Leavitt | Director of Fiscal Affairs |
| Chuck Virag | Controller |

# Independent Auditor's Report & College Financial Schedules

# Summary of Independent Auditor's Report

**Summary of Independent Auditor's Report**

The independent auditor's report issued on the financial schedules for the revenue bonds contained in this report is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The reader may rely on the fairness of the amounts on the schedules presented on pages A-5 through A-18 when analyzing the financial activity of the Series 1966 and Series 1967 Revenue Bonds of the Western Montana College of the University of Montana.

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Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Western Montana College of the University of Montana Housing and Dining System Revenue Bonds Series 1966 and Student Building Fees and Land Grant Income Revenue Bonds Series 1967 for the fiscal year ended June 30, 1993, as shown on pages A-5 through A-18. These financial schedules are the responsibility of the college's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the financial position of the accounts as specified in note 1, Fund Accounting, related to the Western Montana College Series 1966 and Series 1967 Revenue Bonds as of June 30, 1993, and the results of operations of the accounts for the year then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

December 1, 1993

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCE
HOUSING AND DINING SYSTEM
REVENUE BONDS OF 1966
JUNE 30, 1993

| | Operating Account | Sinking Fund Reserve & Systems Repair Reserve |
|---|---|---|
| ASSETS | | |
| Cash & cash equivalents | $ 18,795 | |
| Cash & cash equivalents with fiscal agent | | $20,892 |
| Accounts receivable | 61,594 | |
| Supplies inventory | 44,561 | |
| Merchandise inventory | 2,941 | |
| Investment-Trustee | | 49,844 |
| Prepayments | 200 | |
| TOTAL ASSETS | $128,091 | $70,736 |
| LIABILITIES AND FUND BALANCE | | |
| Accounts payable | $108,860 | |
| Deposits held in trust | 10,080 | |
| Compensated absences | 30,750 | |
| Deferred revenue | 5,135 | |
| TOTAL LIABILITIES | $154,825 | |
| FUND BALANCE | $(26,734) | $70,736 |
| TOTAL LIABILITIES AND FUND BALANCE | $128,091 | $70,736 |

The accompanying notes are an integral part of the financial schedules.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF REVENUES AND EXPENDITURES
HOUSING AND DINING SYSTEM
REVENUE BONDS OF 1966
FISCAL YEAR ENDED JUNE 30, 1993

| | Operating Account |
|---|---|
| REVENUES | |
| Dining income | $ 778,277 |
| Residence halls income | 541,222 |
| Family housing | 34,754 |
| Investment income | 3,430 |
| Student fees | 83,342 |
| SUB rental fees | 13,556 |
| Vending machines | 36,495 |
| TOTAL REVENUES | $1,491,076 |
| EXPENSES | |
| Salaries, wages and benefits | $629,550 |
| Food department expense | 288,347 |
| Communications | 41,027 |
| Supplies and materials | 124,629 |
| Repairs and maintenance | 146,788 |
| Utilities | 139,497 |
| Other contracted services | 95,576 |
| Goods purchased for resale | 25,158 |
| Other expenses | 13,455 |
| TOTAL EXPENSES | $1,504,027 |
| NET PROFIT (LOSS) | $ (12,951) |

The accompanying notes are an integral part of the financial schedules.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF CHANGES IN FUND BALANCE
HOUSING AND DINING SYSTEM
REVENUE BONDS OF 1966
FISCAL YEAR ENDED JUNE 30, 1993

| | Operating Account | Sinking Fund Reserve & Systems Repair Reserve |
|---|---|---|
| FUND BALANCE WAS INCREASED BY: | | |
| Net annual profit (loss) | $(12,951) | |
| Mandatory transfers from Operating Account | | $44,674 |
| Nonmandatory transfers from Student Building Fees and Land Grant Income Operating Account | 92,315 | |
| Investment income | | 3,874 |
| Prior period adjustments | 945 | |
| TOTAL INCREASE IN FUND BALANCE | $ 80,309 | $48,548 |
| FUND BALANCE WAS DECREASED BY: | | |
| Acquisition of equipment and fixtures | $ 23,913 | |
| Principal payments | 999 | $35,000 |
| Interest payments | 259 | 13,570 |
| Mandatory transfers to Reserve Account | 44,674 | |
| Nonmandatory transfers to WMC Day Care Center | 13,000 | |
| Trustee fees | 627 | 42 |
| TOTAL DECREASE IN FUND BALANCE | $83,472 | $48,612 |
| NET INCREASE (DECREASE) | (3,163) | (64) |
| BEGINNING FUND BALANCE | $(23,571) | $70,800 |
| ENDING FUND BALANCE | $(26,734) | $70,736 |

The accompanying notes are an integral part of the financial schedules.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF ASSETS, LIABILITIES, AND FUND BALANCE
STUDENT BUILDING FEE AND LAND GRANT INCOME
REVENUE BONDS OF 1967
JUNE 30, 1993

| | Operating Account | Revenue Bond Fund |
|---|---|---|
| ASSETS | | |
| Cash & cash equivalents | $101,543 | |
| Cash & cash equivalents with fiscal agent | | $39,398 |
| Accounts receivable | 70,905 | |
| Interest receivable | 32,721 | |
| Investment-Trustee | | 29,864 |
| TOTAL ASSETS | $205,169 | $69,262 |
| LIABILITIES AND FUND BALANCE | | |
| Accounts payable | $ 45,982 | |
| Compensated absences | 2,492 | |
| TOTAL LIABILITIES | $ 48,474 | |
| FUND BALANCE | $156,695 | $69,262 |
| TOTAL LIABILITIES AND FUND BALANCE | $205,169 | $69,262 |

The accompanying notes are an integral part of the financial schedules.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF REVENUES AND EXPENDITURES
STUDENT BUILDING FEE AND LAND GRANT INCOME
REVENUE BONDS OF 1967
FISCAL YEAR ENDED JUNE 30, 1993

| | Operating Account |
|---|---|
| REVENUES | |
| Student fees | $ 28,249 |
| Land grant income | 238,745 |
| Investment income | 5,758 |
| P.E. building operations | 2,902 |
| TOTAL REVENUES | $275,654 |
| EXPENSES | |
| Salaries, wages and benefits | $ 41,261 |
| Other contracted services | 4,324 |
| Supplies and materials | 16,326 |
| Repairs and maintenance | 28,701 |
| Utilities | 40,599 |
| Trustee fees | 563 |
| Other expenses | 2,318 |
| TOTAL EXPENSES | $134,092 |
| NET PROFIT (LOSS) | $141,562 |

The accompanying notes are an integral part of the financial schedules.

WESTERN MONTANA COLLEGE OF THE UNIVERSITY OF MONTANA
SCHEDULE OF CHANGES IN FUND BALANCE
STUDENT BUILDING FEE AND LAND GRANT INCOME
REVENUE BONDS OF 1967
FISCAL YEAR ENDED JUNE 30, 1993

| | Operating Account | Revenue Bond Fund |
|---|---|---|
| FUND BALANCE WAS INCREASED BY: | | |
| Net annual profit | $141,562 | |
| Mandatory transfers from Operating Account | | $34,640 |
| Nonmandatory transfers of Energy Grant Funds | 14,255 | |
| Investment income | | 2,727 |
| Other income | | 328 |
| TOTAL INCREASE IN FUND BALANCE | $155,817 | $37,695 |
| FUND BALANCE WAS DECREASED BY: | | |
| Acquisition of equipment and fixtures | $ 9,964 | |
| Capitol outlay | 3,248 | |
| Principal payments | | $ 29,000 |
| Interest payments | | 7,099 |
| Mandatory transfers to Revenue Bond Fund | 34,640 | |
| Nonmandatory transfers to Housing and Dining System Operating Account | 92,315 | |
| Nonmandatory transfers to Plant Fund - Maintenance Projects | 37,685 | |
| Trustee fees | | 15 |
| TOTAL DECREASE IN FUND BALANCE | $177,852 | $36,114 |
| NET INCREASE (DECREASE) | (22,035) | 1,581 |
| BEGINNING FUND BALANCE | $178,730 | $67,681 |
| ENDING FUND BALANCE | $156,695 | $69,262 |

The accompanying notes are an integral part of the financial schedules.

# Notes to the Financial Schedules

## For the Fiscal Year Ended June 30, 1993

### 1. Summary of Significant Accounting Policies

**Basis of Presentation**

The enclosed schedules of Western Montana College of the University of Montana present the financial condition and results of operations related to the Housing and Dining Revenue Bonds of 1966 and the Student Building Fee and Land Grant Income Revenue Bonds of 1967.

**Basis of Accounting**

The college's revenue bond schedules are prepared on the accrual basis of accounting, except there is no provision for depreciation expense. The schedule of revenue and expenditures reports financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

**Fund Accounting**

The accompanying financial schedules are prepared in accordance with provisions contained in the related bond indentures. These provisions require the classification of resources for accounting and reporting purposes into funds according to the limitations or restrictions placed on their use.

Separate accounts are maintained for each fund to identify different types of activities within each fund. However, in the accompanying financial schedules, the accounts related to the pledged revenue of the Housing and Dining System Revenue Bonds of 1966 and the Student Building Fee and Land Grant Income Revenue Bonds of 1967 have been combined into single fund groups for presentation purposes. The schedules are not intended to present the financial activity for all of the accounts in each fund or all of the accounts of the college.

Descriptions of these funds are as follows:

Operating Account - this fund includes economic resources expendable for the operation of the facilities included in the 1966 and 1967 revenue bond indentures.

Sinking Fund Reserve and Systems Repair Reserve - this fund includes economic resources deposited with the trustee to meet debt serve requirements of the 1966 revenue bond indenture.

Revenue Bond Fund - this fund includes economic resources deposited with the trustee to meet debt service requirements of the 1967 revenue bond indenture.

## 2. Encumbrances

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, $35,750 of outstanding purchase orders and purchase commitments are not reported in the accompanying financial schedules for the Student Building Fee and Land Grant Income Revenue Bonds of 1967.

## 3. Cash/Cash Equivalents and Investments

Cash and cash equivalents are defined as cash or investments with original maturities of three months or less. Cash and cash equivalents reported by the college consist of cash deposited with the State Treasurer and investments made through the Montana State Board of Investments using its Short-term Investment Pool, and United States Treasury Bills and Money Market Funds. The cost and market value of these investments were equal at June 30, 1993.

Investments reported reflect the cost of U.S. Treasury Notes purchased on behalf of Western Montana College by its Trustee Bank. These investments are made with funds paid by the college to the Trustee as required under the 1966 and 1967 Bond Indentures. The market value of these investments at June 30, 1993 was $83,731.

All cash and cash equivalents and investments are risk category #1 which includes insured or registered investments, or securities held by the college or its agent in the college's name. Cash/cash equivalents and investments are recorded at cost.

Cash and cash equivalents and investments recorded at June 30, 1993 are as follows:

| | |
|---|---|
| Revenue Bonds of 1966: | |
| Operating Account: | |
| Cash Deposits | $ 18,795 |
| Sinking Fund Reserve and Systems Repair Reserve: | |
| Cash Equivalents: | |
| Money Market (Held by Trustee) | $ 20,892 |
| Investments: | |
| U.S. Treasury (Held by Trustee) | $ 49,844 |
| Revenue Bonds of 1967: | |
| Operating Account: | |
| Cash Equivalents: | |
| Cash Deposits | $ 6,564 |
| Short-Term Investment Pool | 86,200 |
| Money Market (Held by Trustee) | 8,779 |
| Total Cash/Cash Equivalents | $101,543 |
| Revenue Bond Fund: | |
| Cash Equivalents: | |
| Cash Deposits | $ 34,641 |
| Money Market (Held by Trustee) | 4,757 |
| Total Cash/Cash Equivalents | $ 39,398 |
| Investments: | |
| U.S. Treasury (Held by Trustee) | $ 29,864 |

## 4. Inventories

Inventories include merchandise for the vending machines, snack bar, and supplies for the food service. All recorded inventories are stated at cost using the first-in/first-out method.

## 5. Accounts Receivable

The accounts receivable reported for the Housing and Dining System include $27,758 due primarily from off-campus groups that have contracted with the college to use its housing and dining facilities, and payments received during the fiscal year-end cutoff period totaling $33,836.

The accounts receivable reported for the Student Building Fee and Land Grant Income operations includes cash transfers due at June 30, 1993 or received during the fiscal year-end cutoff period from other funds and agencies. $51,850 of this receivable is Land Grant income transferred to the college during the cutoff period by the Department of State Lands.

## 6. Employee Leave

Employees accumulate unused vacation and sick leave. Employees can accumulate and carry over a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971, is purchased from the employee at 25 percent value. The cash value of accumulated vacation and sick leave at June 30, 1993 related to the Housing and Dining System and the Student Building Fee and Land Grant Income Fund was $30,750 and $2,492, respectively. The liability for vacation and sick leave is recorded in the period in which the leave is earned.

## 7. Bonds and Capital Leases Payable

### Bonds Payable

The bonds related to the "1966 Indenture" were issued to build a three-story dormitory. There were $418,000 of bonds outstanding at June 30, 1993. The bonds related to the "1967 Indenture" were issued to build a physical education building and install necessary equipment. There were $161,000 of bonds outstanding at June 30, 1993.

In November 1993 Western Montana College and the University of Montana jointly issued $48,050,000 in revenue bonds.

Western Montana College will receive bond proceeds totaling $955,000. These funds, in addition to liquidated debt service reserves, will finance the defeasance of the 1966 and 1967 Indentures and provide $500,000 for remodeling the Student Union Building.

The cash required to meet the debt service schedule for the new bond issue is $58,357 less than that required under the old schedule. This savings is reduced by the college's share of issuance costs which were $20,436 and the liquidated debt service reserves of $92,224. The resulting effect is a net increase in cash outlay of $54,303. The present value savings associated with the new debt service schedule is $51,747. This savings is reduced by the issuance costs and liquidated debt service reserves, resulting in a net present value economic loss of $60,913.

**Capital Leases**

The amount related to capital leases payable is included under accounts payable on the Housing and Dining System Revenue Bonds Series 1966 Schedule of Assets, Liabilities, and Fund Balance.

The college had a capital lease agreement at June 30, 1993 for the vending machine. The liability recorded for this lease at June 30, 1993 is $1,498, representing the principal due. The capitalized value of this asset, which represents the total of all principal payments under the lease agreement, is $2,997.

Future minimum lease payments under this capital lease are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 1994 | $999 | $254 | $1,253 |
| 1995 | 499 | 127 | 626 |

## 8. Fund Balance

The Housing and Dining System Operating Account has a net loss of $12,951 and a deficit fund balance at June 30, 1993 of $26,734. The college is addressing this deficit by implementing a new payment policy which encourages students to honor room reservations made with residence halls and by continuing to evaluate the System's fee structures and operating costs. In addition, the college is pledging the combined resources of the Housing and Dining System and the Student Building Fee and Land Grant Income operations to the new bond indenture discussed in notes 7 and 11.

## 9. Insurance

During the fiscal year ending June 30, 1993 and through June 30, 1994, real and personal property owned by the State is covered under a policy with the Allendale Insurance Company for all risks of loss including fire, explosion, windstorm, hail, riot, smoke, and vandalism up to $50 million per occurrence, subject to a $150,000 deductible. Coverage for damage due to earthquake or flood is limited to $150 million per occurrence, subject to $1 million and $500,000 deductibles per loss, respectively. Participating agencies are required to pay the first $1,000 of the deductible, and the State's self-insurance fund pays the balance.

During the fiscal year ending June 30, 1993, the college had business interruption coverage of $170,000 with a 50 percent coinsurance through the Allendale Insurance Company. Effective July 1, 1993 the State's property insurance provides business interruption coverage of $1.4 million, with a 50 percent coinsurance on personal services only.

## 10. Commitments

At June 30, 1993 the college had contractual commitments for the installation of an infrared heating system at the Physical Education Complex. Contractual commitments for future work totaled $35,750 at June 30, 1993.

## 11. Subsequent Events

Subsequent to June 30, 1993, Western Montana College entered into contracts to procure roof insulation for the Physical Education Complex and Jordon Hall, and to have the insulation installed at Jordan Hall. The total cost is approximately $56,500. The college also plans to request bids for the installation of insulation and other roof repairs for the Physical Education Complex this Fall at an estimated cost of $180,000.

In November 1993, Western Montana College and the University of Montana jointly issued $48,050,000 in revenue bonds. Western Montana College will receive bond proceeds totaling $955,000. These funds, in addition to liquidated debt service reserves, will finance the defeasance of the 1966 and 1967 Indentures and the remodeling of the Student Union Building. Refer to note 7 Bonds and Capital Leases Payable for further information regarding the refunding of the 1966 and 1967 Indentures.

## 12. FTE Schedule

Schedule of Full-Time Equivalent (FTE) Students
For the Fiscal Years Ended June 30, 1992 and 1993

| Semester | Year | FTEs |
|---|---|---|
| Summer | 1991 | 149 |
| Autumn | 1991 | 904 |
| Spring | 1992 | 893 |
| Summer | 1992 | 131 |
| Autumn | 1992 | 929 |
| Spring | 1993 | 879 |

## 13. Occupancy, Room and Meal Plan Rates

The board and room rates classified by type of meal plan are as follows:

| | 12 Meal Plan and Double Room | 15 Meal Plan and Double Room |
|---|---|---|
| Fall Semester 1992 | $1,465 | $1,575 |
| Spring Semester 1992 | $1,465 | $1,575 |

An extra charge of $80 to $295 is assessed for single rooms.

Family students' accommodations in Western Apartments are $205 per month for a one-bedroom apartment and $225 for a two-bedroom apartment.

Fall Semester 1992 and Spring Semester 1993 occupancy information for the college is presented below:

| | Beds | Family Student Housing (Units) |
|---|---|---|
| Fall Semester 1992 | | |
| Number Available | 570 | 16 |
| Number Occupied | 361 | 16 |
| Percentage Occupied | 63% | 100% |
| Spring Semester 1993 | | |
| Number Available | 570 | 16 |
| Number Occupied | 288 | 16 |
| Percentage Occupied | 51% | 100% |